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Technical Assistance to Support Economic Policy Reform

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**DSP I Monitoring & Verification
Report #4**



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I. INTRODUCTION AND BACKGROUND

The Development Support Program I (DSP I) is a policy reform program designed to assist the Government of Egypt in achieving its planned reform measures. The specific policy measures supported under this program are termed “Indicators” in the Monitoring Plan agreed to between the Government and USAID. They are the performance measures that are the means of achieving the Specific Objectives in the Memorandum of Understanding and are the basis for disbursement of USAID funds.

In 1999, the MIC and USAID agreed on six DSP I Specific Objectives, under which 23 Indicators were identified. Each Indicator was assigned a dollar value, which originally totaled \$600 million for all of DSP I. Subsequently the Government and USAID entered into discussions regarding the addition of several new policy reform initiatives to the original list of indicators. Those new indicators that have been agreed to total \$200 million. The maximum cumulative disbursement under DSP I remains fixed at \$400 million.

The total of the first three disbursements was \$217.1 million. The detailed verification information for these disbursements is contained in the first three Monitoring and Verification Reports. The fourth disbursement was \$100 million and was for the preparation of a multi year economic reform plan by the Government.

The purpose of this report is to present information on the measurement of progress between the Third Monitoring and Verification Report and June 30, 2002, as it relates to the projected final disbursement, and to discuss problems and issues encountered. This report should be read as a continuation of the first three Monitoring and Verification Reports and is in relation to the amended DSP I Monitoring Plan.

II. STATUS OF DSP I INDICATORS

INDICATOR 1.a: The GOE shall improve the valuation process for its Law 203 public enterprises and Joint Venture firms. (Total disbursement possible is \$20 million.)

Background

This is a new indicator that has been added to DSP I. The existing privatization valuation process establishes reserve prices and expectations that can be significantly higher than the market perception, or the prices investors are willing to bid. The true value of potential bids that may bring significant increases in investment, debt reduction, or worker payment increases is not always given enough consideration. And the discount rate used to assess the present value of projected cash flows is probably too low. As a result the pace of privatization has slowed significantly. Since 1999 fewer than 20% of companies formally offered for sale have been successfully privatized.

It was agreed that the Government of Egypt would assemble a panel of experts on accounting and valuation to prepare a study of valuation methodologies and procedures suitable for Egypt’s privatization program. An initial disbursement will be made when this panel has been formed. This panel shall provide their recommendations on the appropriate valuation techniques for enterprises with partial or total public sector ownership, including those under Law 203 and joint

venture firms. When the panel's recommendations have been implemented a second disbursement will be made. A final disbursement will be made when the panel's recommended procedures have been followed and at least one company's privatization has been approved following the use of these procedures.

Progress to Date

The PEO convened a meeting of a committee that is to review the valuation methods appropriate to use for privatizations and to prepare recommendations for their strengthening. The documents that verify that this has occurred have been received by USAID and are included in the Annex to this report.

INDICATOR 1.b: The GOE shall privatize Law 203 and Joint Venture firms.

This indicator is a revision and combination of the original indicators 1.a (Law 203 firms), 1.b (Joint Ventures), and 1.d (Lease Purchase) from the original DSP I Monitoring Plan. In the original Monitoring Plan, \$140 million could be disbursed under DSP I for these three indicators. As of the last Monitoring and Verification Report, \$32.3 million was disbursed for 27 Law 203 privatizations and one long-term lease. The most recent revision of the Monitoring Plan allocates \$40 million for additional privatizations (\$1.5 million per transaction) of Law 203 or joint venture firms occurring after the third disbursement and prior to the end of DSP I.

Progress to Date

Eight additional privatizations have occurred since the third DSP I disbursement. These include:

- 2 Anchor Sales. (Abu Zabal for Fertilizers – investor long term lease with an option to buy, Helwan Portland Cement),
- 1 IPO. (Egyptian Sheet Glass),
- 2 Joint Ventures. (Cairo Metal Products - Asset Sale, Misr Amereya Spinning and Weaving),
- 3 ESAs. (Misr Import Export , United for Textile Trade, and Arab Company for Textile Trading)

INDICATOR 1.c: The GOE authorizes BOOT or BOT contracts, which are successfully let. (Maximum disbursement is \$15.0 million.)

Background

Under the Monitoring Plan, \$15 million will be disbursed under DSP I on a pro rata basis as the goal of LE 6 billion in contracts signed is achieved.

Progress to Date

Three BOOT/BOT contracts were signed in 1999 for the container terminals at Port Said and Ein El Sokhna and the El Dekheila Port. The second DSP I disbursement included \$2.8 million for this progress.

INDICATOR 1.d: The GOE continues to lease firms/units to the private sector on a long-term basis with an option to buy. (Maximum disbursement under this indicator is \$15 million.)

Background

As agreed to in the DSP I Monitoring Plan, up to \$15 million may be disbursed on a pro rata basis when the government signs lease contracts worth LE 6 billion with private sector investors with an option to buy.

Progress to Date

This indicator was combined with indicator 1.b, above, as amended by the DSP I Monitoring Plan, revision # 3 dated June 2, 2002.

INDICATOR 1.e: The GOE sells its shares in electricity and telecommunication companies to the private sector. (Maximum disbursement under this indicator is \$15 million.)

Background

As agreed to in the DSP I Monitoring Plan, up to \$15 million may be disbursed on a pro rata basis when the government sells LE 1.5 billion in shares in electricity and/or telecommunication companies, provided that each IPO is for a minimum of 10% of the shares of the company.

Prospects and Issues

Although the groundwork has been laid for the sale of shares in Egypt Telecom, the Government has postponed the planned sale until the international market strengthens.

INDICATOR 1.f: The GOE performs valuations for the four public sector insurance companies. (Maximum disbursement under this indicator is \$ 10 million.)

Background

To complement other privatization efforts, the GOE plans to restructure the second key component of the financial sector, the insurance sector. Through the enactment of Law 156/1998, the GOE set out to privatize the insurance sector.

Progress to Date

The first stage in the privatization of the four state-owned insurance companies was completed with the valuation of the four insurance companies by the consulting companies, Flemming and Morgan Stanley. With the completion of the valuation of the insurance companies and the acceptance of this valuation by the Government, this Indicator has been accomplished and \$10 million was disbursed.

INDICATOR 1.g: The GOE achieves progress in implementing its plan to privatize the public sector insurance companies. (Maximum disbursement is \$15 million.)

Prospects and Issues

The time required for the privatization of the insurance firms now that they have been valued means that this indicator may appropriately be included in DSP II.

INDICATOR 1.h: The GOE achieves progress in implementing its plan to privatize the public sector banks. (Maximum disbursement under this indicator is \$15 million.)

Prospects and Issues

The Government has started the process to offer a minority portion of the stock in the four public sector banks to the private sector. Experts have been retained for the preparation of comprehensive evaluations and to determine the price at which they can be offered to the private sector. Moodys and Standard and Poors have both started preparing credit ratings and studies on these banks. This indicator may be considered for inclusion in DSP II.

INDICATOR 1.i: The GOE agrees to use the privatization proceeds primarily for: debt retirement/financial restructuring of public enterprises to be privatized; employee compensation relating to downsizing/liquidation; costs of selling public enterprises; and reduction of domestic public debt. (Maximum disbursement is \$5 million each fiscal year.)

Progress to Date

Uses of the sales proceeds during FY 2000 and FY 2001 were in keeping with the DSP I Monitoring Plan. The full \$10 million for this indicator was disbursed.

INDICATOR 2: The GOE enacts a new labor law. (Maximum disbursement under this indicator is \$70 million.)

Background

Labor Law 137/1981 governs employer/employee relationship. Formal discussion of a new labor law began in October 1991, with the establishment of a committee consisting of representatives from the Egyptian Trade Union Federation (ETUF), business organizations, the Ministry of Labor, the local legal community, and the International Labor Organization (ILO).

In 2001 the Cabinet approved a new law which:

- Gave both private employers and public sector managers greater leeway to hire and fire.
- Freed labor unions from GOE control so that they can champion worker rights in a free market setting.
- Allowed private sector employers to use temporary contracts.

Under the terms of the DSP agreement, 60% of this indicator was disbursed when the Cabinet approved the law.

Prospects and Issues

The responsible committee in the PA is currently reviewing the law. It is unlikely that this law will be enacted prior to the end of DSP I, but may be included as an objective under DSP II.

INDICATOR 3.a: Egypt becomes a member of the Patent Cooperation Treaty. (Maximum disbursement is \$10 million.)

Prospects and Issues

It is anticipated that the Patent Cooperation Treaty will be reviewed by the Peoples Assembly now that they have enacted the IPR law. It is unlikely that this can be accomplished prior to the end of DSP I.

INDICATORS 3.b, c, and f: The GOE will enact an Intellectual Property Rights Law that is consistent with their membership in the WTO. (The value of this indicator is \$45 million.)

Background

This indicator is a combination of three related indicators in the DSP I Monitoring Plan. These were 3.b, the enactment of a new Egyptian Trademark Law, 3.c, a new Industrial Design Law, and 3.f, Data Exclusivity (the protection of test and other data submitted for marketing approval of pharmaceutical products).

Progress to Date

The drafting of the IPR Law was one of the highest priorities of the Peoples Assembly in 2002. The new law was enacted in May 2002 and sent to the President for signature. An earlier draft of the law was reviewed and commented on by the WIPO, US Patent and Trade Office, and TIPRE. The Peoples Assembly considered these comments during the revision of the law.

Prospects and Issues

Technical specialists have completed a preliminary review of the final law regarding its compliance with the above DSP objectives. On the basis of this review, it was concluded that the portions of the new law concerned with trademarks and industrial design are consistent with the WTO agreement. However, there are differences between WTO expectations and the law regarding data exclusivity as well as some other elements of the law.

INDICATOR 3.d: The GOE reduces tariff rates and/or fees on imports. (Maximum disbursement under this indicator is \$65 million.)

Background

One of the major components of the trade liberalization policy begun by the GOE in 1991 was the reduction in tariff rates and import fees. GOE actions to reduce tariff rates lowered the effective rate of protection (ERP) across the sub-sectors of the economy. The trade weighted average was further

reduced from 18.8% in 1995/96 to 17.9% in 1997/98. However, in 1998/99 the trade weighted average tariff increased to 20.2 %. The effective rate of protection (ERP) for many individual commodities remains very high because of the acceleration of tariff rates between unfinished and final products. This high level of protection is a factor in the relatively low level of international competitiveness of Egyptian industry and contributes to the low growth in Egyptian exports.

Prospects and Issues

A limited number of upward and downward adjustments in tariff rates occurred in 2001. There are concerns within the government regarding the possible negative impact on government revenues in the short term that could result from additional tariff reductions. Although further tariff reductions are under consideration, no net reductions occurred during the period of DSP I.

INDICATOR 3.e: The GOE adopts a new method of customs valuation. (Maximum disbursement under this indicator is \$20 million.)

Background

Egypt ratified its membership in the WTO in 1995 and became obligated to adopt the GATT/WTO Customs Valuation Agreement by June 30, 2000. The WTO extended the deadline for compliance until June 30, 2001.

Progress to Date

Because of the importance of the customs valuation issue, the sections of a new customs law being developed by the Government that pertain to import valuation were submitted separately to the Peoples Assembly and were enacted as amendments to the existing Customs Law. The new amendments establish the price paid or payable as the basis for customs valuation. However, the articles on valuation were very summary in nature and, for implementation to be effective, the drafting of the executive regulations and the development of operating procedures are particularly important.

The executive regulations for the new law have been drafted and issued by the Ministry of Finance.

Prospects and Issues

The executive regulations have been reviewed in relationship to WTO requirements. On the basis of this review most of the regulations are considered to be broadly consistent with the WTO Agreement, although several important elements are not. The Ministry of Finance and the Customs Service are currently reviewing those modifications that appear to be necessary to achieve compliance with the WTO agreement.

INDICATOR 3.g The GOE establishes a system that simplifies import inspection and sampling procedures as an important step toward compliance with WTO TBT and SPS agreements. (A maximum disbursement of \$20 million is possible)

Background

In the past, several ministries in several different locations carried out import inspection procedures. Testing was done purely for quality aspects as well as for health and safety, tests were often slow, criteria frequently changed, and some of these procedures represented a considerable obstacle to trade.

As an important step toward dealing with these issues, President Mubarak issued Decree 106 on 2 Feb 2000 "Concerning Facilitation of Inspection and Control Procedures for Exports and Imports." This decree directs personnel from the various inspection agencies to be detailed to GOEIC's branch offices "where a joint headquarters shall be equipped with the necessary laboratories." It indicates that these personnel will be under the administrative supervision of GOEIC and shall be authorized to assume inspection and certification functions without referral to higher authority.

Progress to Date

The GOE took an important step toward implementing Decree 106 with the issuance of Decrees 346 and 524 that provide the executive regulations that simplify import inspection and sampling procedures. These decrees specify sampling quantities, time allowed for testing, and procedures for handling the samples. Discussions with importers indicate that the decrees are being implemented and have simplified the import process considerably. The successful implementation of these decrees satisfies this benchmark.

INDICATOR 4.a&b: Full disbursement will be possible if the budget deficit is less than 1.4% of GDP in FY 1999 and FY 2000. No disbursement will occur if the deficit is greater than 2.0% of GDP. (Maximum disbursement under this indicator is \$25 million for each of the two fiscal years.)

Background

The budget deficits in FY 1999 and 2000 exceeded the amounts agreed to in the DSP I Monitoring Plan.

INDICATOR 5.a: The MOE drafts, approves and begins to implement a plan for reforming the insurance industry. (Maximum disbursement for this indicator is \$20 million.)

Background

The GOE issued Law 156 in June 1998 to amend the insurance laws 10/1981 and 91/1995 and allow for the privatization of public sector insurance companies and the operation of foreign insurers in the domestic market. Reforming insurance regulation is a must to ensure fair competition among all insurance market players. Pro rata disbursement is possible when a plan is drafted by EISA that addresses certain key issues, the MOE adopts the plan, and at least one key item in the reform plan is implemented.

Several issues were agreed to in the DSP I monitoring plan as examples of what might be included in the reform plan. The following four were considered as minimum components of an effective reform plan.

- 1- monitoring trade practices, advertising and sales materials by EISA;
- 2- effective dispute resolution between insurance companies;
- 3- allowing both local and foreign insurance and reinsurance brokers to equally participate in the market;
- 4- Effective regulation of private pension funds.

Progress to Date

EISA completed the draft reform plan for the insurance industry and the MOEFT approved it in September 2000. The plan contains the above four key elements as well as many others that are important for the development of the insurance industry in Egypt. The MOEFT issued a decree that implements the element of the plan concerned with the regulation of trade practices, advertising and sales material. This completed the achievement of this benchmark and full disbursement has occurred.

INDICATOR 5.b: The GOE reduces the percentage of re-insurance that must be placed with Egypt-Re. (Maximum disbursement against this indicator is \$20 million.)

Background:

Egypt-Re, which is a state company, is the only Egyptian re-insurer. Since all insurance companies use re-insurance to spread the risks and to avoid over-concentration in certain types of insurance, re-insurance is a vital sub-sector in the insurance market.

According to the insurance Law No. 10 of 1981, insurance companies working in the Egyptian insurance market are required to reinsure part of their insurance transactions carried out in Egypt with Egypt-Re. The compulsory cessions to Egypt Re imposed a burden on insurance companies since it increased the retention they have to keep and affected their investment portfolios. It also discouraged foreign reinsurance companies from participating in the Egyptian insurance market.

In recognition of this, in early 1999 a decree was issued that established a plan for reducing these mandatory levels of reinsurance at Egypt Re. Under DSP I, \$10 million can be disbursed in both 2000 and 2001 when the reinsurance requirements are reduced as specified in this plan.

Progress to Date

The percentage of reinsurance that must be placed with Egypt Re was reduced as specified in the decree, which is as described in the DSP I Monitoring Plan. This indicator has been fully satisfied and disbursed.

INDICATOR 5.c The GOE amends the Capital Market Law. (The maximum disbursement under this indicator is \$20 million.)

Background

In 1992, the GOE issued the Capital Market Law 95 (CML) to revitalize the Egyptian securities markets. The law empowers the Capital Market Authority (CMA) to act as the regulator of the market. The CML provided the framework for the establishment of capital market intermediaries including: brokerage firms, mutual funds, mutual fund management companies, portfolio managers, underwriting institutions and venture capital firms. Provisions within the law also facilitate the issuing of corporate bonds. Furthermore, the law allowed foreign ownership of Egyptian securities.

However, there were some issues that need further actions. The initial GOE intent was to enact a new law to address these issues, and this was the basis for this indicator. More recently the Government has considered amending the existing law rather than enacting a new law.

Progress to Date

A draft law was prepared and a draft set of executive regulations were also prepared. However, it does not appear that it will be possible to amend the existing law prior to the end of DSP I.

INDICATOR 5.d The GOE enacts a new stock market depository law. (The maximum disbursement against this indicator is \$20 million.)

Progress to Date:

A new depository law has been enacted that fully meets the objectives of this DSP I indicator. All planned funds were disbursed in the first disbursement.

INDICATOR 5.e: The GOE enacts a new law governing mortgages. (The maximum disbursement against this indicator is \$20 million.)

Progress to Date

A draft law was prepared in 1999 on which the Government solicited extensive comments from the private sector. Following this process, the Government revised the draft law to reflect the concerns of the private sector. This law was approved by the Cabinet and the Peoples Assembly enacted the law. It provides for the basic regulatory structure for a mortgage market and will create a primary and secondary mortgage market. It satisfies the objectives of the DSP I Monitoring Plan and completes the requirements of this benchmark.

INDICATOR 5.f The GOE issues regulations required to regulate margin trading. (Maximum disbursement is \$5 million.)

Background

Margin trading in equities presently takes place in Egypt but without regulatory oversight. The current practice puts both customers and brokers at risk. It also creates risks to the banking community and to the trading of stocks in general.

Margin trading increases the volume and consequently the liquidity of capital market transactions. It allows investors to more fully participate in the capital markets and by increasing their ability to invest it increases the amount of capital available for private investment. Regulating margin trading will protect the investors; limit the exposure of the broker/dealers; and define and limit the credit risk to the banking system. That current margin trading practices come under appropriate regulation would be desirable not only for the protection of all the market participants but also for the support of the orderly functioning of the stock market itself.

Progress to Date

Draft regulations have been prepared by the Capital Market Authority that would regulate margin trading. The Government is currently reviewing these regulations.

INDICATOR 5.g: The GOE enacts a competition law. (A maximum of \$15 million can be disbursed against this indicator.)

Background:

The importance of this legislation relates to several factors. On the domestic level, the increasing role of the private sector and foreign investment require the existence of a framework to protect consumers and improve the efficiency of the economic sectors through competition. The domestic market has witnessed certain monopolistic practices in some sectors such as the building materials sector, the agriculture products sector and the financial services sector, which need to be addressed. On the international level, the WTO agreement requires the existence of national anti-trust and competition policies. The free trade agreement between Egypt and the EU also includes such a requirement.

The law should provide for an equitable competition regime in which there is a commitment to the removal of as many as possible of the barriers to entry and other bureaucratic barriers. It should provide a clear set of objectives and lay out a suitable framework in which markets can function efficiently and in the public's interest. It should provide for deregulation where appropriate and for a regulatory and arbitration regime that is compatible with available technical and administrative capacity.

Prospects and Issues:

The GOE is drafting a Competition & Anti-trust law. The draft is being discussed within the Government and will be reviewed by different interested parties in the private sector before final review and approval by the Cabinet. The GOE plans to establish an independent body to be responsible for the enforcement of the law once the People's Assembly enacts it. It is planned that the law and the implementing body will be complemented by other legislation related to privatization, foreign trade policies and consumer protection. The new law will concentrate on the monopolistic behavior of firms. It will also address important issues such as the means of arbitration. The work required to carry out these actions make this indicator appropriate for inclusion in DSP II.

INDICATOR 5.h: The GOE issues a decree that removes restrictions on Broker Fees. (Maximum disbursement in support of this indicator is \$5 million.)

Background

The GOE wishes to increase the volume and liquidity in the market. The GOE previously set maximum charges for some small transactions in the capital market. MOE Decree 1994/478 sets broker fees at a maximum of ½ of one percent for stock transactions of less than LE 10,000 and 1/5 of one percent for all other market transactions less than LE 10,000. This restriction discouraged brokers from engaging in small transactions, thereby limiting the access of small investors to the stock market. It is important that the Egyptian capital market evolve over time to one in which such fees are set competitively and facilitate rather than restrict transactions. The market should develop so that the fees for these transactions are set so as to both cover costs and facilitate transactions. Doing so will contribute to a broader and more effective market.

Progress to Date

The Minister of Economy and Foreign Trade issued a decree that eliminated government restrictions on broker fees. Final disbursement was included in the second disbursement.

INDICATOR 5.i: The GOE issues a decree that establishes a code of good practices for bond rating agencies. The maximum disbursement in support of this indicator is \$5 million.

Background

It was agreed in the amended DSP I Monitoring Plan that a code of good practices and basic requirements for accreditation of bond-rating agencies should be established. The intent is to enhance the transparency and ensure the quality of ratings. Accreditation would ensure the rating agencies operate professionally, independently, and objectively.

Information submitted to rating agencies should be kept confidential. The Capital Market Authority will be the accrediting authority and there should be no conflict of interest on the part of rating agency board members, owners or staff in respect to firms that they rate. Issuers must provide accurate and complete information to the rating agency.

Progress to Date

The Minister of Economy and Foreign Trade has issued a decree that establishes a code of good practices for bond rating agencies. It includes the elements agreed to in the DSP I Monitoring Plan. Full disbursement under this indicator was included in the second disbursement.

INDICATOR 6.a: The GOE issues a decree to advance the development of domestic debt markets. (The maximum disbursement under this indicator is \$25 million.)

Background

If Egypt is to achieve its ambitious growth targets, it must develop a debt securities market that can efficiently intermediate fixed-rate capital and provide the CBE with the means of conducting indirect monetary policy.

Another important component to enhance the distribution of government securities in the primary market and to stimulate secondary market trading volumes is the establishment of a primary dealer system. Primary dealers are banks and investment dealers authorized to buy and sell government securities in direct dealings with the CBE. Such dealers must be qualified in terms of reputation, capacity and adequacy of capital, staff and facilities. The primary dealer system coupled with an open auction system will provide a fair pricing mechanism by opening the market for investors and supplying a reliable liquidity source.

The Capital Market Development Project is assisting the CBE in the design of procedures that will allow the establishment of a primary dealer system and set the criteria for dealer selection to activate a secondary debt market. The US Treasury is also assisting in this area and is supporting the GOE in the development of the government debt market.

Progress to Date

Ministerial Decrees 43/2000 and 44/2000 allowing the establishment of dealers for secondary market trading in fixed income securities were issued in January 2000. The Government issued Decree 480/2002 in April 2002 that established the procedures for the selection and regulation of primary dealers. This set of decrees satisfies the objective of this indicator. The verification documentation is included in the Annex.

INDICATOR 6.b: The GOE passes legislation to facilitate the operation of competitive, well-ordered primary and secondary debt markets. (The maximum disbursement under this indicator is \$25 million.)

Background

An appropriate public debt law and regulations are essential for the development of primary and secondary markets for government debt instruments. The legislation should define responsibilities in debt issuance and trading, and supervisory regulation of these activities. The US Treasury, with USAID financing, is providing assistance to the MOF in drafting a public debt law.

Under the terms of the DSP I agreement, up to \$25 million can be disbursed in support of this indicator on a pro rata basis as a new public debt law receives internal governmental approval and is enacted by the Peoples Assembly.

Progress to Date

The U.S Treasury with USAID financing assisted in drafting a new debt law. The US Treasury is providing the government with an advisor on debt management. It will probably not be possible to complete the actions necessary for this indicator prior to the end of DSP I. It may be appropriate to include this objective in DSP II.

INDICATOR 6.c: The GOE establishes a book-entry registry for government securities.
Maximum disbursement in support of this indicator is \$10 million.

Background

T-Bills are currently issued in paper form and can be transferred only by endorsing the certificate. This makes clearing and transfer of secondary trades too expensive and time-consuming to accommodate the volume and speed of trading necessary for indirect monetary policy. It is important to strengthen the domestic debt market in order to foster stabilization efforts and enhance private investment through facilitating the dematerialization of government debt. This should help increase liquidity in the market, simplify transfer of ownership, ensure safety of transactions, reduce time and expenses of the transfer of ownership of securities, and help encourage portfolio investment through establishing international best practices.

A government debt book-entry system should replace the traditional paper certificate registry of securities ownership with a computerized system that actively maintains the securities outstanding and makes coupon and principal payments. A government securities book-entry system also has the capacity to track transfers of ownership and to facilitate their settlement. Eventually there should be such a system for both government bills and bonds. However, the first phase may be focussed on treasury bills only.

Progress to Date

The steps leading to the establishment of a book entry system have been taken. The Government procured the necessary hardware, trained the staff, and purchased the software required for this system. In June 2002 the Central Bank instructed all banks to hand over their T Bill certificates to the Central Bank to be replaced with statements of account from the electronic book entry system. Verification that these actions occurred was received from a USAID contractor.

INDICATOR 6.d: The government establishes a public debt management unit in the Ministry of Finance. (Maximum disbursement in support of this indicator is \$10 million.)

Background

One of the prime roles of ministries of finance worldwide is the management of the debt, which needs to be issued to fund the government. It is the debt management department, which makes the decisions about how that debt is to be issued.

In a country with emerging bond and money markets, it is essential that sovereign debt issuance be planned in such a manner as to help develop stable and viable primary and secondary markets

in government debt. This is especially important since sovereign debt issuance and trading plays a special role in establishing the viability for all private debt issuance and trading.

Progress to Date

The GOE issued decrees that establish the framework for Primary Dealers to underwrite and maintain secondary markets in GOE debt. The GOE also plans to introduce and enact a new public debt law to enhance the operation of a competitive, well ordered primary and secondary GOE debt market. To support both these measures, the Ministry of Finance established a debt management unit and the core staff have been recruited. Full disbursement in support of this indicator was included in the second disbursement.

INDICATOR 7: The GOE adopts a Comprehensive Macroeconomic Policy Reform Plan. (Maximum disbursement in support of this indicator is \$100 million.)

Background

The worldwide economic downturn that occurred since the events of September 11, 2001 has had a significant adverse impact on an already slowing Egyptian economy. Egypt's foreign exchange receipts dropped dramatically due to significant decreases in tourism, lower oil revenues, as well as reduced receipts from the Suez Canal. These economic factors put pressure on the Egyptian pound, adversely affect Egypt's ability to import needed commodities, dampen private sector activity and investments, reduce domestic revenues and may increase unemployment. To address the economic crisis Egypt needs to take a strategic look at its macroeconomic policies and put in place a comprehensive reform program that will enable Egypt to emerge from the current situation stronger and better able to withstand economic shocks. The development by the GOE of a comprehensive plan to address its economic challenges constitutes this benchmark. The transmittal to the U.S. Mission of an approved reform plan will be the basis for the disbursement of this indicator.

Progress to Date

The GOE developed a Comprehensive Macroeconomic Reform Plan that addressed the issues of policy consistency across the GOE's exchange rate, monetary and fiscal policies. The plan also described the Government's legislative agenda and provided an update of its sectoral reform plans. On the basis of the plan provided to the U.S. Mission, full disbursement for this indicator was made.

III. FIFTH DSP I DISBURSEMENT

Under the terms of the DSP I agreement, the first disbursement was for indicators that were completely accomplished, except for the indicators that relate to privatization. For privatization indicators, pro rata disbursements were made in the first disbursement. For subsequent disbursements, pro rata disbursements were made in support of all indicators where verifiable progress had been made, consistent with the Monitoring Plan. The first four disbursements totaled \$317.1 million.

In the list below, those benchmarks are shown for which verification documentation is available and which can be included in the fifth disbursement.

Indicator

- 1.a Privatization Valuation Method (Independent panel of experts was formed and has met.)
- 1.b Privatization of Firms (Eight firms were privatized)
- 6.a Decrees Establishing Government Debt Market (Fully accomplished)
- 6.c Book Entry Registry (Fully accomplished)

IV. ANNEXES (See separate volume.)